



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

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Contact: Peggy Peterson at 226-0471

BAKER SUBCOMMITTEE TO QUESTION FANNIE MAE, FREDDIE MAC OFFICIALS

The House Financial Services Subcommittee on Capital Markets, chaired by Rep. Richard H. Baker (LA), will hold a hearing at 2 p.m. on Tuesday, March 27, in room 2128 Rayburn House Office Building to review last year's commitments by Fannie Mae and Freddie Mac to improve capitalization, information disclosure and market discipline.

"In October we took a 'meaningful first step' toward greater market transparency and enhanced risk management," Baker said. "The subcommittee will now begin to examine the details of these measures previously proposed in broad strokes. I hope we will be able to assess not only Fannie's and Freddie's progress in implementing these commitments, but also if, when implemented, these measures in fact meet our goals of real transparency and market discipline and how we might best monitor Fannie's and Freddie's performance in this regard."

Republican and Democrat Committee members joined the CEOs of Fannie Mae and Freddie Mac in an Oct. 19, 2000, news conference to announce that the two secondary mortgage market giants had voluntarily agreed to take steps to promote market discipline and thereby limit the systemic risk they pose to the financial markets.

The two housing government sponsored enterprises (GSEs) agreed to:

- issue publicly traded, externally rated subordinated debt, generally viewed as a good indication of creditworthiness;
- obtain and publicly disclose annual credit ratings on the risk they pose to the government, from a nationally recognized statistical rating organization, such as Moody's or Standard and Poor's;
- publicly disclose interest rate and credit risk sensitivity analyses on a regular basis;
- boost the amount of liquid assets they maintain to levels that would cover three months of funding; and

- implement an interim risk-based capital stress test (the Office of Federal Housing Enterprise Oversight, OFHEO, is currently in the process of finalizing such a test).

At the hearing tomorrow subcommittee members will review those commitments, the progress made to date, and plans the GSEs have for further implementation.

House Financial Services Chairman Michael G. Oxley said, "Greater transparency benefits the bond and stock markets and would improve the housing finance markets as well. These steps should give market participants greater confidence in Fannie and Freddie."

Baker held a series of hearings last year on a legislative proposal to strengthen regulatory oversight of the GSEs and increase market discipline. Baker plans to introduce similar legislation in the coming weeks.

Witnesses scheduled to testify are:

Leland Brendsel, Chairman and Chief Executive Officer, Freddie Mac

Timothy Howard, Executive Vice President and Chief Financial Officer,
Fannie Mae

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